



**PATRIOT ONE TECHNOLOGIES INC.**

Unaudited Condensed Consolidated Interim Financial Statements

Three months ended October 31, 2017

## **Notice of No Auditors Review of Interim Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the unaudited condensed consolidated interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these unaudited interim condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor

# PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Financial Position  
(Unaudited)

	October 31, 2017	July 31, 2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 15,451,189	\$ 5,184,904
Accounts and other receivables	138,723	177,461
Prepaid expenses and deposits	70,210	67,446
Inventory	259,646	164,138
Deferred financing costs	-	579,299
	15,919,768	6,173,248
<b>Non-current assets</b>		
Property, Plant and equipment	27,776	-
<b>Total assets</b>	<b>\$ 15,947,544</b>	<b>\$ 6,173,248</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 456,176	\$ 597,776
<b>Shareholders' equity</b>		
Share capital (Note 6)	22,505,489	7,110,602
Share subscriptions	12,000	4,628,750
Contributed surplus (Note 6)	3,003,367	1,334,562
Accumulated deficit	(10,029,488)	(7,498,442)
	15,491,368	5,575,472
<b>Total liabilities and shareholders' equity</b>	<b>\$ 15,947,544</b>	<b>\$ 6,173,248</b>

Reporting entity and going concern (Note 1)  
Subsequent events (Note 10)

Approved on behalf of the Board:

**"Martin Cronin"**

\_\_\_\_\_  
Director, Chief Executive Officer

**"Scott Shepherd"**

\_\_\_\_\_  
Director

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

## PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss for the three months ended October 31,  
(Unaudited)

	<u>2017</u>	<u>2016</u>
<b>Expenses</b>		
Advertising and marketing	\$ 149,271	\$ 65,258
Business development	141,333	-
Conferences and trade shows	78,754	184,523
Depreciation	2,149	-
General and administrative	134,100	13,137
License fees	25,214	-
Personnel costs	497,389	84,232
Professional fees	16,898	38,561
Research and development	464,091	299,662
Share-based compensation (Note 6)	179,225	-
<b>Loss and Comprehensive Loss for the period</b>	<b>\$ 1,688,424</b>	<b>\$ 685,373</b>
<b>Weighted average number of shares</b>	<b>66,766,282</b>	<b>21,746,356</b>
<b>Basic and diluted loss per share</b>	<b>\$ 0.03</b>	<b>\$ 0.03</b>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

## PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)  
(Unaudited)

	Share Capital		Share Subscriptions	Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount				
Balance - July 31, 2017	60,605,716	\$ 7,110,602	\$ 4,628,750	\$ 2,113,167	\$ (8,341,064)	\$ 5,511,455
Shares issued on prospectus financings, net of share issue costs (Note 6)	16,300,821	13,676,988	(4,628,750)	759,911	-	9,808,149
Shares issued on the exercise of warrants	6,069,161	1,633,819	12,000	(28,456)	-	1,617,363
Shares issued on the exercise of stock options	212,000	84,080	-	(20,480)	-	63,600
Share-based compensation (Note 6)	-	-	-	179,225	-	179,225
Net loss for the period	-	-	-	-	(1,688,424)	(1,688,424)
<b>Balance - October 31, 2017</b>	<b>83,187,698</b>	<b>\$ 22,505,489</b>	<b>\$ 12,000</b>	<b>\$ 3,003,367</b>	<b>\$ (10,029,488)</b>	<b>\$ 15,491,368</b>

	Share Capital		Share Subscriptions	Contributed surplus	Accumulated deficit	Total
	Number of shares	Amount				
Balance - July 31, 2016	17,885,001	\$ 475,625	\$ 134,865	\$ -	\$ (604,242)	\$ 6,248
Share capital issued for cash, net of share issue costs	5,074,924	696,341	-	-	-	696,341
Share subscriptions, net of cash received	-	-	(134,865)	-	-	(134,865)
Net loss for the period	-	-	-	-	(685,373)	(685,373)
<b>Balance - October 31, 2016</b>	<b>22,959,925</b>	<b>\$ 1,171,966</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,289,615)</b>	<b>\$ (117,649)</b>

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

## PATRIOT ONE TECHNOLOGIES INC.

Condensed Consolidated Interim Statements of Cash Flows for the three months ended October 31  
(Unaudited)

	<u>2017</u>	<u>2016</u>
<b>Cash flow (used in) operating activities</b>		
Loss for the period	\$ (1,688,424)	\$ (685,373)
Adjustment for:		
Share-based compensation (Note 7)	179,225	-
Depreciation	2,149	-
	<hr/>	<hr/>
	(1,507,050)	(685,373)
Changes in non-cash operating working capital		
Receivables	42,203	(40,600)
Prepaid expenses	(2,764)	12
Inventory	(95,508)	-
Accounts payable and accrued liabilities	(209,082)	154,422
	<hr/>	<hr/>
Cash used in operating activities	(1,772,201)	(571,539)
	<hr/>	<hr/>
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment	(29,925)	-
	<hr/>	<hr/>
<b>Cash flow from financing activities</b>		
Proceeds on issue of share capital, net of share issue costs	12,056,411	696,341
Share subscriptions received, less deferred financing costs	12,000	(124,865)
	<hr/>	<hr/>
Cash received from financing activities	12,068,411	571,476
	<hr/>	<hr/>
<b>Increase (decrease) in cash for the period</b>	10,266,285	(63)
	<hr/>	<hr/>
<b>Cash at beginning of period</b>	5,184,904	195,090
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<b>Cash at end of period</b>	\$ 15,451,189	\$ 195,027

### SUPPLEMENTAL CASH FLOW INFORMATION (Note 8)

The accompanying notes form an integral part of these condensed consolidated interim financial statements

# **PATRIOT ONE TECHNOLOGIES INC.**

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2017 and 2016  
(Unaudited)

## **1. Reporting entity and going concern**

Patriot One Technologies Inc. (the "Company"), formerly Clear Mountain Resources Corp., was incorporated under the Business Corporation Act of British Columbia. Its common shares are listed on the TSX Venture Exchange ("TSX-V") as a Tier 2 issuer under the trading symbol "PAT". The Company, through its wholly owned subsidiary Patriot One Detection Ltd. ("Patriot"), is principally engaged in the commercialization of a system to detect concealed weapons utilizing radar technologies. The system is an innovative radar technology providing first responders and security personnel valuable time in active threat scenarios.

The Company's primary office is located at 750-1095 West Pender Street, Vancouver, British Columbia, Canada, V6E 2M6 and its registered and records office is located at 400-725 Granville Street, Vancouver, British Columbia, Canada, V7Y 1G5.

## **2. Basis of preparation**

### *(a) Statement of compliance*

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Accordingly, certain disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards have been omitted or condensed. These condensed consolidated interim financial statements were prepared using the same accounting policies and methods as those used in the audited consolidated financial statements of the Company for the year ended July 31, 2017 and should be read in conjunction with those financial statements.

These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on December 28, 2017.

### *(b) Basis of presentation and accounting*

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, Patriot One Detection Ltd.

All significant intercompany balances and transactions have been eliminated on consolidation.

### *(c) Functional and presentation currency*

The functional currency of the Company is the Canadian dollar and these condensed consolidated interim financial statements are presented in Canadian dollars.

### *(d) Basis of measurement*

These condensed consolidated interim financial statements have been prepared on the historical cost basis.

## **PATRIOT ONE TECHNOLOGIES INC.**

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2017 and 2016  
(Unaudited)

### **2. Basis of preparation (continued)**

#### *(e) Accounting assumptions, estimates and judgments*

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results may differ from the estimates applied in the preparation of these interim financial statements.

Significant areas having estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include share-based payments and the fair value of equity instruments issued in connection with private placements.

Critical judgments that management has made in applying the Company's accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: assessment of the Company's ability to continue as a going concern (Note 1) and determination of the classification of financial instruments.

#### *(f) Comparative figures*

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

### **3. New standards and interpretations not yet adopted**

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in the Company's audited financial statements for the year ended July 31, 2017. There were no new standards effective August 1, 2017 that had an impact on the Company's interim financial statements.

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2017 and 2016  
(Unaudited)

### 4. Acquisition of Patriot by way of Reverse take-over

On November 9, 2016, the Company completed the acquisition (the "Transaction") of Patriot, a private company principally engaged in the commercialization of a system to detect concealed weapons utilizing radar technologies. Prior to the Transaction the Company consolidated its shares on a 20 for 1 basis from 24,468,337 common shares to 1,223,416 common shares and changed its name from Clear Mountain Resources Corp. to Patriot One Technologies Inc. Under the terms of the Transaction, shareholders of Patriot exchanged 100% of the issued and outstanding shares in Patriot in exchange for 10,862,216 common shares of the Company with a fair value of \$1,629,332. In addition, at the time of the Transaction the Company had warrants and options to purchase 9,838,800 and 250,000 common shares, respectively, the fair value of which was \$769,679 and \$26,514, respectively. Following the completion of the Transaction, the former shareholders of Patriot acquired control of the Company as they own a majority of the outstanding shares of the Company upon completion of the Transaction. Therefore, the Transaction constitutes a reverse take-over and Patriot is deemed to be the acquirer for accounting purposes with the net assets of the Company being recorded at fair value at the date of the Transaction. The historical consolidated financial performance prior to the Transaction is that of Patriot.

Consideration paid	
Share capital	\$ 1,629,332
Fair value of warrants and stock options	796,193
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	2,425,525
Net assets (liabilities) acquired	
Cash	2,303
Other receivables	9,480
Prepaid expenses	9,333
Trade and other payables	(198,601)
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	(177,485)
Listing costs - non cash	2,603,010
Listing costs - fees paid	22,174
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Listing costs	2,625,184

As the Transaction was not considered a business combination, the excess of fair value of the consideration over the net assets of the Company is included in the consolidated statement of operations and comprehensive loss as listing costs for the year ended July 31, 2017.

## **PATRIOT ONE TECHNOLOGIES INC.**

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2017 and 2016  
(Unaudited)

### **5. License, Assignment and Option Fees**

On April 29, 2016, Patriot entered into an agreement with Bullrun Capital Inc. ("Bullrun") wherein Bullrun agreed to assign to Patriot its option (the "Option Agreement") to obtain from McMaster University ("McMaster") a worldwide exclusive license to use or cause to be used certain radar technology used to detect concealed weapons (the "License Agreement") invented, developed and/or acquired by McMaster. As consideration for the Option Agreement, Patriot paid Bullrun a fee of \$60,000 and granted Bullrun a 2% royalty (the "Bullrun Royalty") to be paid on net sales of all commercial products developed under the License Agreement between McMaster and the Company. This royalty payable to Bullrun would be in addition to any royalties to be paid to McMaster by the Company.

The Company exercised its option and entered into the License Agreement with McMaster. In consideration for the License Agreement, the Company paid an up-front license fee of \$10,000 and issued 1,560,000 common shares with a fair value of \$78,000 (Note 6). In addition, the Company agreed to pay a royalty of 3.5% on net sales. In addition, the Company agreed to make minimum annual royalty payments as follows:

- first and second year \$2,500
- third year \$5,000
- fourth and subsequent years \$7,500

On October 26, 2016, Patriot entered into an amended agreement with Bullrun wherein both parties set out their mutual understandings and conclusively recorded the terms and conditions with respect to the Bullrun Royalty. In the amended agreement, Bullrun agreed to an equal division of the Bullrun Royalty between Bullrun and Rajni Singhera ("Singhera") to be paid on net sales of licensed product in a calendar year, the amount of which is to be accrued and paid annually on March 31 of the following year. Payment of the Bullrun Royalty is subject to a minimum royalty threshold of \$100,000, the first payment of which is not payable until March 31, 2019 and then annually thereafter.

In the case where the Company's Board of Directors determines that the payment of the Bullrun Royalty would impact the ongoing operations of the Company, the annual payment for that year will be satisfied by the issuance of notes payable to Bullrun and Singhera which notes will mature two years from the date of issue and accrue interest at the Bank of Canada prime rate plus 3% per annum.

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2017 and 2016  
(Unaudited)

### 6. Share capital

#### *Authorized*

The authorized share capital of the Company consists of an unlimited number of common shares with no par value.

#### *Issued and outstanding*

The issued and outstanding share capital for the three months ended October 31 2017 and year ended July 31, 2017 is as follows:

	Three months ended October 31, 2017		Year ended July 31, 2017	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning of period	60,605,716	\$ 7,110,602	17,885,001	\$ 475,625
Shares issued for cash, net of share issue costs	16,215,000	13,616,913	20,775,589	2,801,631
Shares issued for agency fees	32,250	22,575	-	-
Shares issued for corporate finance fees	53,571	37,500	-	-
Shares issued on the exercise of warrants	6,069,161	1,633,819	10,874,410	2,131,774
Shares issued on the exercise of stock options	212,000	84,080	208,500	72,240
Shares issued on Transaction at fair value	-	-	10,862,216	1,629,332
<b>Balance at end of period</b>	<b>83,187,698</b>	<b>\$ 22,505,489</b>	<b>60,605,716</b>	<b>\$ 7,110,602</b>

On August 29, 2017, the Company issued 6,612,500 units (the "Units") for gross proceeds of \$4,628,750 pursuant to a brokered private placement. Each unit consisted of one common share and one half of a common share purchase warrant (each whole common share purchase warrant, a "Warrant"). These 3,306,250 Warrants allow the holders to acquire an additional common share at \$1.25 per share until July 13, 2020. The Company paid the agents a cash commission of \$301,438, a corporate finance fee of \$37,500 and \$65,500 for legal costs of the agents.

The Company paid broker fees of \$184,310 and issued 1,224,852 broker warrants exercisable at \$0.30 per common share for a period of two years with a fair value of \$65,500. The cost of the Financing was deducted from the value of the common shares. The fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	2 years
Expected volatility in market price of shares	100.0%
Expected dividend rate	0%
Risk-free interest rate	0.62%
<b>Weighted average fair value per warrant granted</b>	<b>\$ 0.054</b>

In addition, the Company issued 32,250 common shares valued at \$22,575 as an agency fee and 53,571 common shares valued at \$37,500 as a corporate finance fee.

Further, the Company issued 16,125 warrants as an agency fee, which allow the holder to purchase an additional 16,125 common shares at an exercise price of \$1.25 per share until July 13, 2020 and 462,875 warrants (the "Broker Warrants"). The Broker Warrants may be converted into 462,875 common shares at an exercise price of \$1.00 per share until July 13, 2020.

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2017 and 2016  
(Unaudited)

### 6. Share capital (continued)

On October 31, 2017, the Company issued 9,602,500 units (the "Units") for gross proceeds of \$11,523,000 pursuant to a bought deal equity financing. Each Unit consisted of one common share and one half of a common share purchase warrant (each whole common share purchase warrant, a "Warrant"). These 4,801,250 Warrants allow the holders to acquire an additional common share at \$1.70 per share until October 31, 2020. In addition, the agents received 672,175 agent warrants that allow holders to acquire 672,175 common shares at \$1.20 per share until October 31, 2019. Finally, the Company paid the agents a cash commission of \$806,610 and \$84,143 for legal costs of the agents.

The Company paid broker fees of \$184,310 and issued 1,224,852 broker warrants exercisable at \$0.30 per common share for a period of two years with a fair value of \$65,500. The cost of the Financing was deducted from the value of the common shares. The fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	2 years
Expected volatility in market price of shares	100.0%
Expected dividend rate	0%
Risk-free interest rate	0.62%
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Weighted average fair value per warrant granted	\$ 0.054

On August 22, 2016, Patriot issued 5,074,924 units at a price of \$0.15 per unit for total proceeds of \$761,240. Each unit is comprised of one common share and one share purchase warrant. Each share purchase warrant is exercisable at \$0.30 per common share for a period of two years. The Company paid broker fees of \$64,899 and the cost of the Financing was deducted from the value of the common shares.

Pursuant to the Transaction (Note 4) the Company completed a non-brokered private placement of 15,700,665 units at an issue price of \$0.15 per unit, for aggregate gross proceeds of \$2,355,100 (the "Financing"). Each unit is comprised of one common share of the Company and one Company share purchase warrant entitling the holder to acquire one Company common share at a price of \$0.30 for a period of two years, subject to certain acceleration conditions at the option of the Company. The Company paid broker fees of \$184,308 and issued 1,224,852 broker warrants exercisable at \$0.30 per common share for a period of two years with a fair value of \$65,500. The cost of the Financing was deducted from the value of the common shares. The fair value of the broker warrants was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	2 years
Expected volatility in market price of shares	100.0%
Expected dividend rate	0%
Risk-free interest rate	0.62%
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Weighted average fair value per option granted	\$ 0.054

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2017 and 2016  
(Unaudited)

### 6. Share capital (continued)

Following the Financing and pursuant to the Transaction, all Patriot common shares, share purchase warrants and stock options were exchanged for common shares, share purchase warrants and stock options of the Company on a one for one basis. Based upon the equity issued by the Company to Patriot, the transaction was determined to be a reverse takeover (Note 4). As such, the accounts of Patriot continue as the reported accounts of the entity. In total, the Company issued 22,959,925 common shares, 12,724,924 share purchase warrants and 3,825,000 stock options to Patriot securityholders.

#### Warrants

Warrant activity for the three months ended October 31 and year ended July 31, 2017, is as follows:

	Three months ended October 31, 2017		Year ended July 31, 2017	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance at beginning of period	28,164,831	\$ 0.26	7,200,000	\$ 0.10
Issued	9,258,675	1.47	31,839,241	0.27
Exercised	(6,069,161)	0.26	(10,874,410)	0.19
<b>Balance at end of period</b>	<b>31,354,345</b>	<b>\$ 0.61</b>	<b>28,164,831</b>	<b>\$ 0.26</b>

As at October 31, 2017, outstanding warrants are as follows:

Number of Warrants Outstanding	Weighted Average Exercise Price	Expiry Date	Weighted Average Life Remaining (months)
2,970,000	\$0.10	29-Jul-18	9.0
2,983,293	\$0.30	22-Aug-18	9.5
11,458,052	\$0.30	09-Nov-18	12.5
4,486,055	\$0.20	27-Jun-19	20.0
200,000	\$1.00	18-Nov-20	36.5
3,320,675	\$1.25	13-Jul-20	32.5
462,875	\$1.00	13-Jul-20	32.5
4,801,250	\$1.70	31-Oct-20	36.0
672,175	\$1.20	31-Oct-19	24.0
<b>31,354,375</b>			<b>19.1</b>

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2017 and 2016  
(Unaudited)

### 6. Share capital (continued)

#### Stock options

The Company offers an incentive stock option plan that provides for the granting of options up to 10% of its issued and outstanding common shares to directors, officers, employees and consultants. The exercise price of each option is equal to the quoted market price of the Company's common shares on the trading day immediately preceding the date of grant and the maximum term is ten years.

Stock option activity for the three months ended October 31, 2017 and year ended July 31, 2017 is as follow:

	Three months ended October 31, 2017		Year ended July 31, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of period	5,356,500	\$ 0.41	-	\$ -
Granted	375,000	0.81	5,765,000	0.40
Exercised	(212,000)	0.30	(208,500)	0.24
Cancelled	-	-	(200,000)	0.185
<b>Balance at end od period</b>	<b>5,519,500</b>	<b>\$ 0.45</b>	<b>5,356,500</b>	<b>\$ 0.41</b>

As at October 31, 2017 outstanding stock options are as follows:

Exercise price	Number of options outstanding at October 31, 2017	Weighted average remaining life (months)	Expiry Date
\$ 0.30	650,000	45.0	August 1, 2021
\$ 0.185	1,150,000	47.0	October 3, 2021
\$ 0.30	1,654,500	47.0	October 3, 2021
\$ 1.44	200,000	37.5	December 14, 2020
\$ 0.65	1,415,000	55.5	May 18, 2022
\$ 0.80	75,000	30.0	July 19, 2020
\$ 0.65	125,000	58.0	September 15, 2022
\$ 1.00	150,000	58.5	September 15, 2022
\$ 0.73	100,000	59.0	October 2, 2022
	<b>5,519,500</b>	<b>49.1</b>	

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2017 and 2016  
(Unaudited)

### 6. Share capital (continued)

During the three months ended October 31, 2017, the Company recognized share-based compensation related to stock options of \$179,225 (2016 - \$Nil). The compensation expense was based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected life	5 years
Expected volatility in market price of shares	100.0%
Expected dividend rate	0%
Risk-free interest rate	0.87%
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Weighted average fair value per option granted	\$ 0.10

#### *Loss per share*

Stock options and warrants are not included in the determination of fully diluted loss per share for the three months ended October 31, 2017 and 2016 as these instruments are anti-dilutive.

#### *Escrow securities*

Pursuant to a TSX-V Form 5D Escrow Agreement among the Company, TSX Trust Company and certain securityholders of the Company, a total of 10,148,001 shares, 1,023,000 share purchase warrants, and 2,100,000 incentive stock options of the Company (collectively the "Escrowed Securities") were to be held in escrow. The Escrowed Securities are to be released at 10% on the date of the Transaction and an additional 15% every six months thereafter with the final tranche being released on November 10, 2019. As at October 31, 2017, 9,133,201 common shares, 720,700 share purchase warrants, and 1,485,000 incentive stock options of the Company are being held in escrow.

### 7. Related party transactions

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole.

The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers.

Key management compensation incurred with related parties during the three ended October 31, 2017 was \$157,923 (2016 - \$71,332) relating to management fees paid to officers and directors of the Company or to companies controlled by officers and directors of the Company. In addition, share-based compensation expense relating to officers and directors for the three months ended October 31, 2017 was \$54,180 (2016 - \$177,025).

As at October 31, 2017 accounts payable and accrued liabilities includes \$46,247 (July 31, 2017 - \$37,200) due to officers and directors of the Company or to companies controlled by officers and directors of the Company.

## PATRIOT ONE TECHNOLOGIES INC.

Notes to Condensed Consolidated Interim Financial Statements for the three months ended October 31, 2017 and 2016  
(Unaudited)

### 8. Supplemental Cash Flow Information

Non-cash activities during the three months ended October 31, 2017 were conducted by the Company as follows:

Fair value of 53,371 common shares issued as corporate finance fee	\$ 37,500
Fair value of 32,250 common shares issued for agency fee	\$ 22,575
Fair value of 672,175 warrants issued for broker fees	\$ 565,860
Fair value of 462,875 warrants issued for broker fees	\$ 188,036
Fair value of 16,125 warrants issued for agency fee	\$ 6,015
Transfer of contributed surplus on exercise of broker warrants	\$ 28,456
Transfer of contributed surplus on exercise of stock options	\$ 20,480

### 9. Commitments

#### *Operating lease commitments*

The Company is committed to various operating leases for office premises with remaining terms up to January 2019. For the fiscal years ended July 31, the future minimum lease payments under these operating leases are as follows:

2018	67,074
2019	65,025
	<hr/>
	132,099

### 10. Subsequent events

Subsequent to October 31, 2017, the Company:

- granted stock options to allow the holders to acquire 190,000 common shares at \$1.47 per share for five years; and
- issued 1,149,990 common shares for cash of \$246,497 on the exercise of warrants.